

## NATIONAL PARLIAMENT

### **Ad Hoc Committee for Initial Assessment and Issuance of a Report and Opinion on Draft Law No. 18/III(3) -First Amendment to Law no. 6/2014 of 30 December (General State Budget for 2015)**

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### **Report and Opinion**

**Approved in meeting of the Ad Hoc Committee, 30 March 2015**

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## I. INTRODUCTION AND LEGAL FRAMEWORK OF THE PROPOSAL

### (i) Admission of Proposal

The Proposed Public Law (PPL) No. 18/III(3) - "First Amendment to Law No. 6/2014, of 30 December, approving the General State Budget (GSB) for 2015", was presented by the Government to the National Parliament, in the exercise of legislative initiative under the provisions of Section 145(d), Article 95.3(c) and Article 97.1, all of the Constitution of the Democratic Republic of Timor-Leste (now CRDTL).

The PPL was admitted on 26.3.2015 and on the same day was sent to the Ad Hoc Committee, created for the purpose, by Resolution 2/2015 of the National Parliament, for the production of a report and reasoned opinion.

The formal requirements relating to legislative initiatives in general and the bills were observed, in particular, to be met for its admissibility. It is therefore that is in accordance with the provisions of Articles 92, 96.2, 98 of the Rules of Procedure, namely that it is written in Portuguese language, in the form of articles, contains a title reflecting its central object and is accompanied by explanatory memorandum.

PPL is also in line with the provisions of Article 34 of Law No. 13/2009 of 21 October, Law on Budget and Financial Management (LOGF), which deals with the structure and content of budget amendment laws. The structure and content of the latter must be complied with for fiscal laws, regulated in Chapters I and II of Title IV of LOGF)

PPL also complies with the requirements of the Law 1/2002, of 7 August, the Minutes of Publication Act, with respect to the form of the acts, especially article 11 that provides for the proposed law to the Government National Parliament.

### (ii) Ad hoc committee

Similar to what has happened in recent years, an ad hoc committee was created to perform the functions under the rules, for budget analysis, it is up to the Public Finance Committee, which is producing a report and an opinion on the proposed budget amendment.

The Committee was approved by resolution of the PN, which took the No. 2/2015. The Committee consists of 30 members.

The Ad hoc committee was assigned three days to prepare its report and opinion, harmonize amendments to PPL No 18/III (3) and adopt of a Single Text Substitute the PPL to submit to the Plenary of the National Parliament.

### (iii) Rapporteur

Ms. Maria Angelica Rangel da Cruz dos Reis of the FRETILIN Parliamentary Bench was assigned as rapporteur.

Preparation of this Report observed, with necessary adaptations, the provisions of Article 34 of the Rules of Procedure.

### (iv) Procedure

Innovations were introduced to the regimental procedure in order to print more quickly to debate and vote on the bill. Thus, it was decided to shorten the time for general and specific discussions. The debate generally takes place in one day and the specialty shall not exceed two days.

### **(v) Prior Initiatives**

To carry out the analysis and prepare its opinion the committee has undertaken the following initiatives: a) Study of the proposed budget amendment law; b) Meetings of review and comment formulation, conclusions and recommendations, as well as for the identification and harmonization of amendments.

At meetings of the Ad Hoc Committee members of the Government participated. Those meetings took place on 27, 28 and 30 March 2015.

### **(v) Public Hearings**

No public hearings were held.

## **II. METHODOLOGY**

The Conference of Leaders of the parliamentary groups appreciated the Calendar for Appreciation of the Draft Program of the Government and parliamentary scrutiny of draft law n. 18 / III (3) submitted by the Committee of Public Finance to the President of the National Parliament on 11 March 2015, leading to the approval end timing of the work, which fixed the terms of assessment of the bill of 2015 Amending GSB for days March 26 to April 8, 2015.

Understanding the urgency in completing the legislative process and appreciating the need to quickly overcome the constraints registered since February with the large transverse budget execution by most state agencies, especially in relation to the payment of goods and services following the VI Constitutional Government, the deadlines set in the rules for the budget legislative process, were substantially shortened by consensus of all political forces in parliament.

The day after the approval of the Government Program, the National Parliament Plenary adopted on March 26, the determination of Project No. 13 / III (3) - "Formation of an Ad Hoc Committee for the Assessment and Initial Issue Report and Opinion on the Draft Law No 18/III (3) -First Amendment to Law No 6/2014 of December 30 (State Budget for 2015)", hereinafter referred to as Ad Hoc Committee, having admitted the Proposed Law n. 18 / III (3) and submitted it for initial assessment in general to that Ad Hoc Committee.

The Ad Hoc Committee integrated the mandate that the Rules give to Committee "C" and the other permanent specialized committees on budgetary legislative procedure, leading all the steps of the process prior to the debate and vote in the plenary on the bill in question.

On the same day March 26, after the adoption of Resolution that created the said Ad Hoc Committee, were requested by office written contributions on the Draft Law Amending State Budget, from the Court of Appeal, the Advisory Council of the Petroleum Fund, the NGO Lao Hamutuk and the International Organisation UN Women. There was also complete openness on the part of the ad hoc committee, to consider and incorporate the contributions that the various Standing Specialized Committees wished to present on the initiative under consideration.

For logistical reasons, the Ad Hoc Committee, consisting of deliberation, the 11 Members of Public Finance Committee, 6 representatives of the parliamentary group of FRETILIN, 2 representatives of the parliamentary group of CNRT, one representative of the parliamentary group of the PD, 1 representative of the bench the parliamentary Frente-Mudanca, the Chairpersons of the specialized standing committees or by the respective vice presidents, when in replacement of those, by the President of the National Parliament, who chaired the meeting, and also the two Vice-Presidents of PN, met on the Finance Ministry's premises on March 27, from 10 am, following the schedule, to consider the draft rectification of the approved state budget, hear those responsible for line ministries whose budgets for 2015 reflected relevant changes in the state budget for 2015 (based on the provisions of Article 178.2 of the Rules of Procedure) to consider and harmonize any proposal to amend the draft

law, produce and approve a single replacement text of the bill, casual were to be consensual and produce a Report and Opinion on the proposal for Amending GSB 2015 to refer to the Bureau of Parliament. In addition to the members of the Ad Hoc Committee, also attended the meeting, but without voting rights, some members of government, including the Prime Minister, the Minister of Finance and the Deputy Minister of Finance.

On 28 March, the Ad Hoc Committee reconvened from 9 am, but this time at the premises of the Ministry of Foreign Affairs and Cooperation.

Were admitted, approved and integrated into a Single Text Substitute the Proposed Law n 18/III(3) all the amendments tabled by Members of the PN, which generally did not alter the overall ceiling of expenditure approved by the State Budget Act, 2015.

The documentation used by the Ad hoc Committee for the analysis of legislative initiative of the Government and production of this report and opinion, only included the draft law n. 18/III (3), the budget book No. 1-Panorama Budget and the Law no. 6/2014 of 30 December, which approved the State Budget of 2015, since the Government did not refer to the National Parliament the budget execution report of the 2015 state budget through 15 February or at least the budget books 2 - Annual Action Plans of Ministries and 4 - Budgetary Lines and 6 - Special Funds considered essential for the issuance of report and opinion and for subsequent parliamentary scrutiny.

Unfortunately, finding that the Government Transparency Portal was unavailable for consultation for over a month, it was also not possible to retrieve information on the current level of execution of the State Budget in force.

#### **IV. MACROECONOMIC CONTEXT FOR 2015**

On pages 6 to 12 of Book 1-Panorama Budgetary on PPL n.18 / III (3) is done, spread over two points (2.2.1 - International Economy and 2.2.2 - Domestic Economy) an analysis of the macroeconomic context which is expected to take place in the fiscal year 2015, this context that not fail to influence the execution of GSB15 and will be influenced by it.

Allow yourself to a first observation of formal character: the correct name for what is known as “domestic economy” is “national economy” since in the economic literature the name now used refers to intra-family economy, especially the economy of each nuclear family. It is suggested, therefore, the Government and the “Ad hoc Committee” should change the designation concerned, fleeing the (apparent) transfer to a literal translation from English.

A second observation, this almost methodological character, is that the macroeconomic analyzes are mainly using statistics. Now, especially in the macroeconomic area, particularly in production, the data produced by the Directorate General for Statistics comes after a long delay, since the last known values for the National Accounts refer to 2012. Calls to the Government for efforts to improving the national statistical system, particularly in the area of production.

Third and last introductory remarks, in part related to what was said earlier about the need to have the maximum information possible to analyze the behavior of the national economy, there is a call to the Government to urgently give its approval to the publication, by the International Monetary Fund, of the report prepared by this under Article IV of its Statutes relative to 2013. In fact, its publication was suspended by the RDTL Ministry of Finance without knowing why. It is feared even if the possible damage that the publication will bring to Timor-Leste is greatly exceeded by the image of lack of transparency of the Timorese Administration that that attitude is nonetheless already generated that this is a very unusual attitude toward that international institution. On behalf of this same transparency it is believed that it is important to unlock ever since this publication – which is long overdue because the report is available from 28AG014 - the document in question entitled “STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION”.

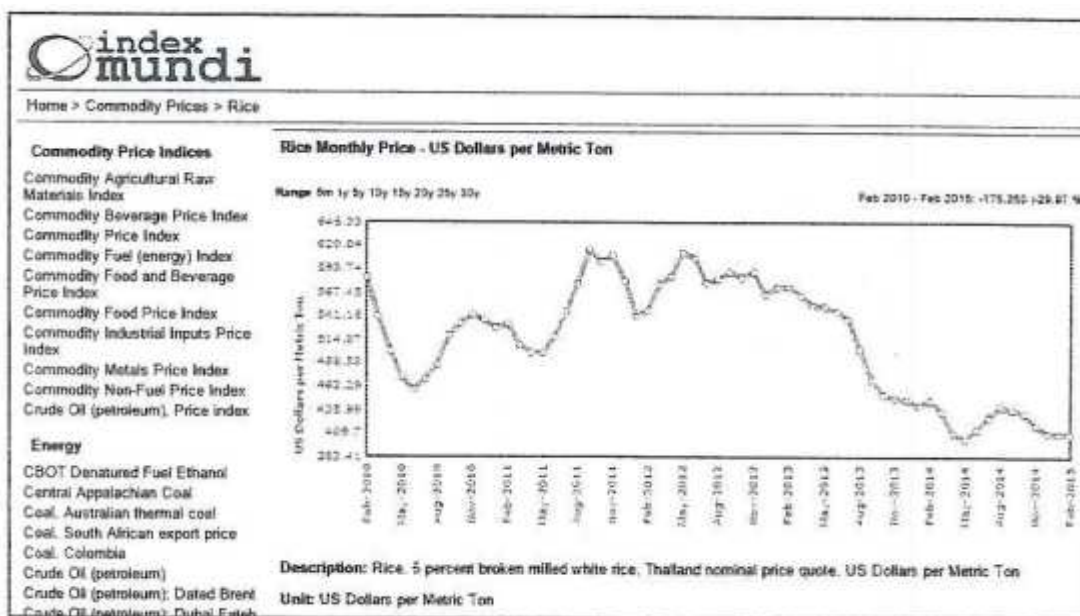
The content of the “Economic Outlook” should be noted that the observations made in it on the “International Economy” (section 2.2.1) seem to depict what usually appears in similar analyses, including those done by international institutions such as the IMF- International Monetary Fund, the prime source of information followed by GSB15 the report in question.

This stresses recent trends in the international economy and its possible consequences for Timor-Leste. In fact, it is stated that

*“Changes in international prices of agricultural raw materials can have a considerable [positive] effect on the inflation rate and the standard of living in Timor-Leste”.*

Note that although the country is very dependent on (some) food imports, with the only real impact on the value of our imports and inflation is the international price of rice and not truly the agricultural raw materials in general.

**Graph 1- “Index Mundi” data on the evolution of the average price of rice**



According to the “Index Mundi” database (<http://www.indexmundi.com/>) rice average price fell from \$447 USD/ton in February 2014 to \$409.5 USD/ton in 2015, a drop of 8.4% in 12 months. The general price index of agricultural raw materials referred to by GSB15-rectification document has dropped (“only”) 5.8% in the same period, 2.6 percentage points less than the average price of the said rice.

In GSB15- rectification document also mentioned, as the most striking features of the most recent period of evolution of the international economy, two important economic phenomena to Timor-Leste:

- the fall of the average international oil price (from \$108.8/barrel in February 2014 to 57.93 USD/barrel in February 2015 for the case of Brent crude, used as a reference by the national authorities) and
- The value of the U.S. dollar, the currency of Timor-Leste, relative to our face to our key economic partners, including Indonesia (1 USD = 11,376.6 Indonesian rupiah (IDR) in 26MAR14 and = 12,919.9 IDR in 26MAR15, a devaluation of about 13% in a year).

As for the evolution of key macroeconomic variables related to our national economy (pp. 8-12 GSB15-Rectified), the state budget report recalls 2007 growth rates to 2012 noting that during this period the country “registered an exceptionally high growth in non-oil GDP. “

Note that in a document of this kind, perhaps more important than remembering the past, is to anticipate the future to try to define the most appropriate economic policy. This is where there is the main flaw of the national statistical system for which was already warned previously and which strongly suggests that the government to try to change the current situation. This change, this improvement, it is essential to be able to make more accurate predictions of the future development of the national economy. Remember that the best you can do in the document under consideration is to make estimates for the recent past (2013 and 2014) and for the current year, 2015.

In fact, the graph/figure 2.2.2.1.3 (p. 10) estimates the growth rate of the real non-oil GDP at rates of 5.6%, 7.1% and 7% for 2013, 2014 and 2015 respectively.

The IMF paper mentioned earlier in this chapter and dated August 2014 indicates that growth rates for 2013 and 2014 were, respectively, 5.4% and 6.6%. For 2015 it is estimated that the growth rate will be 6.8%. Each of the values is below the estimates of the government but a little significantly - even that the value for 2014 is 0.5 percentage points below the estimate of the Government.

It should be noted, finally, that in a public hearing when GSB15 was being discussed in late 2014, the Timor-Leste Central Bank presented an estimate, based on economic performance indicator that it created itself, a growth rate of less than 1 % for 2013, down from 5.4% in the IMF estimates and 5.6% of the V Government of RDTL. The estimate for 2014 was something higher than the Fund and the Government.

These differences serve to reinforce the importance of having correct statistical data, particularly in relation to production. It is suggested, therefore, that the Government look at a link between the General Directorate of Statistics and the macroeconomics department of the Ministry of Finance on the one hand, and the Central Bank, on the other, find ways to establish advanced indicators to predict the short-term future as is the case, for example, indicators such as consumption and / or import of cement and iron for civil construction - on the evolution of the national economy that are truly useful to the macroeconomic management of this.

In addition to the development of non-oil GDP, GSB15-rectified report also addresses the problem of inflation in our country. It provides that

*"Inflation rises 2015 and at the end of the year will be between 4% and 6%, which is the target set by the government. The upward pressure in 2015 results partly from improved execution of government expenditure, as well as downward pressure from the recent fall in international oil prices".*

It is recalled that the annual rate of February 2015, i.e., the rate of change between the Consumer Price Indexes for the whole country between Feb. 2014 and Feb. 2015, was 2.9% and its rise to 4% (the minimum rate estimated by the government) represents an increase in this annual rate of 1.1 percentage points.

Now, considering the appreciation of the US dollar and the fall of the prices of imported rice and oil, we believe that the pressure to rising prices in this way will not be sufficient to cause this expected increase to the annual rate of inflation. Thus, we admit as possible, unless the agricultural year is particularly bad implying unanticipated increases in food prices (located in 3.4% between Feb.2014 and Feb.2015), the annual inflation rate in 2015 (Dez15 vs. Dez14) may be even below the lower limit of the range allowed by the government, i.e. lie somewhat below 4% (approximately 3.5% -3.8%?). The alleged foreseeable increase in government activity, presented as a possible cause of any greater upward pressure on prices, does not seem to be a sufficiently strong case to justify such increase. In fact, the amount budgeted for this is similar to the year 2014 and is to demonstrate the ability of the state apparatus increased in the short term, its budget capacity (of \$1,500 million budgeted in 2014 was actually paid about \$1,367 million; an increase of this magnitude does not seem enough to tip the economy to the point of accelerating inflation).

One final note regarding this macroeconomic outlook is to point out that is not meant that some of the changes highlighted in the document will influence the GSB15 rectification.

One of the aspects to keep in mind in this area is that of “spending on fuel for vehicles.” It is recalled that in GSB14 were appropriated \$13.8 million and \$14.4 million was effectively spent. The value of \$13.8 million dropped to \$11.2 million in the initial proposal of GSB15 but came to settle at \$12.5 million in the approved state budget which is in force at this time.

We do not have the value of this item for any government contained in the GSB15 rectification, but assuming it stays as in the GSB15 into force, we can ask ourselves why the value rose between the “proposed” GSB15 and the fixed value, when you know that there was a significant decline in fuel prices. The fall of global value between the GSB14 and GSB15 was about 10% (\$1.3 million less) but we admit that it could have gone further. It is possible that the Government, with unknown future developments in fuel prices, has resolved to be cautious. We think so but only time will tell.

The signals given by the Prime Minister in his inspection activities suggest that the government is concerned about this issue and that, even in the name of that caution, possibly keeping the amounts currently budgeted -- remember that budgeted figures are not mandatory values, and even less minimum values -- make a very careful management of available funds, implementing control systems for these expenses which are deemed effective. These include changing the supply system in petrol stations -as mentioned by the honorable Prime Minister --and the possible gradual introduction of “fleet management” information systems that allow control spending on fuel by the Government car park. Such a system already exists, it is known, at the Presidency and it should be extended gradually to all organs of state.

Much of what is said above can be applied, with necessary adaptations, to the budgeted figures for spending on fuel for generators.

These are the notes which admittedly will not be easy to implement in the very short term (GSB15-rectified) but we believe that the Government should take into account in the preparation, to start soon, of the GSB16. Remember that spending on fuel for vehicles is about 0.8% of the state budget and therefore, even if morally just, any measures to improve their reduction are important but do not generate, in themselves, a significant savings yet that, and that’s the most important, improve the overall effectiveness of public expenditure.

## **V. STATE REVENUES AND EXPENDITURE IN 2015**

Taken from the Budget book Executive Summary no. 1, of the VI Constitutional Government has optimized the government structure in order to create a smaller administration, more efficient and more effective, in order to improve coordination between ministries as well as the formulation and implementation of policies, but not promoting adjustments to reduce the overall level of expenditure or the form of the finance, and also not changing estimates of domestic revenue, estimated sustainable income (ESI), excess withdrawals from the Petroleum Fund, use of cash balances and loan amounts.

The new government argues that this budget proposal does not significantly affect fiscal sustainability, economic growth or inflation in the short to medium term.

The Preamble of proposed 2015 State Budget Amending Law states that the amendment that introduces the law of the State Budget 2015 n.-law 6/2014 of 30 December, will be reflected only in the Table of Annexes II – Budget Appropriations for 2015 and in Table III - Autonomous Services partially financed by their own revenues in the state budget for 2015, while remaining unchanged Annex I – estimated revenues to be cover and finance expenditures in the state budget for 2015, Annex IV - Budget Allocations for 2015 for the Infrastructure Fund and Annex V - Budget Allocations for 2015 for the Human Capital Development Fund.

The body of the proposed 2015 State Budget Amending Law also provides for amendments to Article 9 of the 2015 State Budget Law "Appropriations for Whole of Government". If these changes are approved by the PN, the envelope of this "Ministerial Line" will increase from \$91,624,000 to \$94,575,000, representing an increase of 3%. The repealed lines in Article 9 of the 2015 State Budget Law – "Appropriations for Whole of Government" are i) "Secretariat for Company Registration and Verification (SERVE)," j) "Secretariat of Major Projects" and l) "Special Council for Final Delimitation of Maritime Boundaries" which will be transited to other line ministries. The new points to be added to Article 9 by the 2015 State Budget Amending Law are v) Provision for the Veterans Council, with \$250,000, w) Public-PRIVATE Partnerships and Loans, with \$1,128,000, and x) Provision for Stability Operations with \$2 million. It will be useful for PN to get more clarification about these additional charges.

### **(i) Revenue**

Despite numerous appeals by Committee "C", in its report and opinion on the proposed state budget law for 2015, for ESI calculations to be revised according to new available data on the price of oil on international markets and consequently aligned the level of public expenditure in accordance with the new assessed value, the amount originally calculated for the ESI was maintained and did not reflect the continuing fall in the price of a barrel of Brent crude which was observed from June 2014 and, secondly, the new government now confirms, may negatively affect the volume of oil revenues, up to 40% in relation to the considered estimation for 2015. It should be noted that in early 2015 the price per barrel fell to historic lows, reaching below 50 dollars.

Despite the opportunity that the proposed Amending State Budget 2015 could represent for the Government to update the value of ESI according to the reality of the facts and, in this line of thought, reduce the level of expenditures for the fiscal year 2015, this has not been done. The Ministry of Finance clarified that the Estimated Sustainable Income (ESI) is only updated once a year, according to the availability of long-term data on production, cost and projection of oil, so this will be recalculated only when drafting the GSB for 2016.

Also the appreciation of the US dollar against the currencies of its trading partners should have some impact on the 2015 GSB rectification, but this is also not done, we unfortunately confirm.

Strangely government estimates of domestic and oil revenues for the time period of 2015-2019 also remain constant according to the tables contained in books 1 of the approved 2015 and the bill to amend GSB 2015. This assumption regarding the revenue estimates is not in accordance with the VI Government Program and its announced and desired tax reform. It is true that so-called brake-law prevents the resulting revenue increase from a tax reform to have effects within the same year of 2015, but in 2016 we should already observe the first positive effects of the efforts made this year. The highly anticipated positive impact resulting from new stimulus measures to increase agricultural production and strategic investment in tourism will not yet have visible results by the end of the mandate of the Sixth Constitutional Government, to have faith in projections available by the Government.

In conclusion, the projection of domestic and oil revenues for 2015 is unchanged, totaling \$2,461 million dollars and therefore Tables 1 and 2 of Annex I of the Proposed 2015 GSB Law do not suffer any changes from the amendment the law.

If it would be approved by the Ad Hoc Committee, the Single Text Substitute Proposed Law n. 18 / III (3), Annex III - as regards the financing of autonomous funds and services for 2015 will be amended, to reflect the increase in financing destined for ARAEOA and ZEESM Oecusse Ambeno and Ataúro payable by the GSB, (the budget of ARAEOA and ZEESM Oecusse Ambeno and Ataúro will have \$133,430,000 dollars instead of \$81,930,000 approved by the 2015 State Budget Law.

It is strange to report that the high dynamic productivity of the VI Government proposes to instill in the entire government also will not have a positive quantifiable impact through the end of 2015 in the



universe of Institutions Partly Funded by the GSB, that leads to the increase of their own revenues, thereby freeing the GSB from significant effort to finance them now is required to finance the same.

The contribution of Development Partners in 2015 also will not change with the 1<sup>st</sup> amendment to the GSB law 2015 (staying therefore at \$165.5 million).

Finally, it should be noted that also the amount of GSB financing resorting to external borrowing remains at the previous level, remaining at \$70 million.

## (ii) Expenses

As referred to in the previous chapter, the 1<sup>st</sup> amendment to GSB will not produce changes in the total amount of expenditure approved by the State Budget Law for 2015, with more implications for changes in the total appropriations of the costs incurred through the Consolidated Fund (CFTL) and Infrastructure Fund (IF), if the amendments however submitted to the Ad hoc committee are accepted. The 2015 budget appropriations for the Human Capital Development Fund (HCDF) the budget for 2015 are unchanged.

The following table provides the new allocation of funds to the three Funds of the State Budget, with the acceptance of the amendments accepted and submitted to the ad hoc committee:

**Table 1 - Comparison of appropriations for 3 Funds between GSB 2015 and GSB 2015 rectified**

Fundo	Salários e Vencimentos		Bens e Serviços		Transferências		Capital Menor		Capital de Desenvolvimento		Total OGE 2015	Total OGE Retificativo (Comissão Eventual)	Variação
	OGE 2015		OGE 2015		OGE 2015		OGE 2015		OGE 2015				
	OGE 2015	Retif.	OGE 2015	Retif.	OGE 2015	Retif.	OGE2015	Retif.	OGE2015	Retif.			
FCTL, incluindo SFA	179,003	177,538	475,172	475,840	406,800	454,452	26,415	29,804	74,225	73,981	1.161,615	1.211,615	50,000
FI incluindo empréstimos									367,301	317,301	367,301	317,301	- 50,000
FDCH			41,084	41,084							41,084	41,084	-
<b>TOTAL OGE</b>	<b>179,003</b>	<b>177,538</b>	<b>516,256</b>	<b>516,924</b>	<b>406,800</b>	<b>454,452</b>	<b>26,415</b>	<b>29,804</b>	<b>441,526</b>	<b>391,282</b>	<b>1.570,000</b>	<b>1.570,000</b>	<b>-</b>

The latest version of the draft 2015 State Budget Rectification that already includes the amendments accepted and included by the Ad Hoc Committee, as well as previous adjustments in appropriations of five expense categories shown in the Consolidated Fund of Timor-Leste, which imply an increase in the allocation of recurrent expenditures of \$46.9 million and an increase of \$3.15 million more in capital spending. The following table allows to observe the changes which are produced in the five categories of CFTL:

**Table 2 – Reformulation of budget appropriations entered in the 5 CFTL categories with the Rectified 2015 State Budget**

OGE 2015 - FCTL (incluindo FSA)	OGE 2015	OGE 2015 Retificativo (Com. Eventual)	Variação (Valor)	Variação (%)
Salários e Vencimentos	179 002 000	177 538 000	- 1 464 000	-0,8%
Bens e Serviços	475 172 000	475 840 000	668 000	0,1%
Transferências	406 800 000	454 452 000	47 652 000	11,7%
<b>TOTAL Despesas Correntes</b>	<b>1 060 974 000</b>	<b>1 107 830 000</b>	<b>46 856 000</b>	<b>4,4%</b>
Capital Menor	26 415 000	29 804 000	3 389 000	12,8%
Capital de Desenvolvimento	74 225 000	73 981 000	- 244 000	-0,3%
<b>TOTAL Despesas Capital</b>	<b>100 640 000</b>	<b>103 785 000</b>	<b>3 145 000</b>	<b>3,1%</b>
<b>TOTAL OGE GLOBAL</b>	<b>1 161 614 000</b>	<b>1 211 615 000</b>	<b>50 000 000</b>	<b>4,3%</b>

Unid: USD

Under the Infrastructure Fund, it is noted that the total amount of expenditure approved by the 2015 State Budget Law was \$367.301 million, including \$70 million payable by the Borrowing Program, which will endure by the proposed law submitted to the Ad Hoc Committee on the GSB Rectification, a cut of \$50 million that will strengthen the CFTL, specifically the budgetary allocation for ARAEOA and ZEEMS, which thereby will have \$137.692 million in 2015.

That \$50 million budget reduction in IF, involves “budget cuts” in some programs and project appropriations registered and approved under this fund (IF) for 2015, with the exception of Borrowing. The following programs will see reductions:

**Table 3 – Reductions in operating budgetary allocation from registered programs in IF for 2015**

<b>Dotações Orçamentais para 2015 do Fundo das Infraestruturas (US\$'000)</b>				
Nome do Programas de Fundos Infraestruturas	OGE2015	OGE2015 Retificativo	Variação (valor)	Variação (%)
<b>Total Incluindo Empréstimos</b>	<b>367.301</b>	<b>317.301</b>	<b>(50.000)</b>	<b>-13,6%</b>
<b>Total Excluindo Empréstimos</b>	<b>297.301</b>	<b>247.301</b>	<b>(50.000)</b>	<b>-16,8%</b>
<b>Total Empréstimos</b>	<b>70.000</b>	<b>70.000</b>	<b>-</b>	<b>0,0%</b>
Programa de Agricultura e Pescas	7.236	7.236	-	0,0%
Programa de Água e Saneamento	5.598	4.598	(1.000)	-17,9%
Programa Desenvolvimento Urbano e Rural	9.595	9.595	-	0,0%
Programa de Edifícios Públicos	13.713	8.713	(5.000)	-36,5%
Programa de Sistema Financeiro e Suporte de Infraestruturas	19.135	19.135	-	0,0%
Programa do Sector Juventude e Desporto	2.750	2.750	-	0,0%
Programa do Sector Educação	7.962	7.962	-	0,0%
Programa de Electricidade	57.128	47.128	(10.000)	-17,5%
Programa Informática	1.400	1.400	-	0,0%
Objectivo Desenvolvimento Milénio	8.500	6.500	(2.000)	-23,5%
Programa do Sector Saúde	3.996	3.996	-	0,0%
Programa de Defesa e Segurança	11.046	11.046	-	0,0%
Sub Programa Segurança	7.389	7.389	-	0,0%
Sub Programa Defesa	3.657	3.657	-	0,0%
Programa de Solidariedade Social	-	-	-	0,0%
Programa Desenvolvimento Tasi Mane	35.081	35.081	-	0,0%
Programa de Estradas	54.800	44.800	(10.000)	-18,2%
Programa de Pontes	11.317	11.317	-	0,0%
Programa de Aeroportos	19.000	14.000	(5.000)	-26,3%
Programa de Portos	7.855	3.855	(4.000)	-50,9%
Programa de Desenvolvimento Região Oe-Cusse	-	-	-	0,0%
Programa do Sector Turismo	1.000	1.000	-	0,0%
Preparação de Desenhos e Supervisão-Novos Projectos	8.189	7.189	(1.000)	-12,2%
Programa de Transportes	12.000	-	(12.000)	-100,0%
Programa de Empréstimos	70.000	70.000	-	0,0%

Even with respect to the Infrastructure Fund, summing up the concerns of PN and the general population, already too well known, about the continuity of the “Millennium Development Goals” Program, especially considering the effort as substantial which has led into the coffers of the state, since 2011. It is recalled that this program aims to build sets of prefabricated housing villages, designed without taking into account the origin, quality and duration of construction materials they use, the cultural identity of the Timorese people or for land and that the V Constitutional Government had inclusively announced the suspension for the purpose of re-evaluation program.

The aggregate results of the “cut” of \$50 million in funding for programs inscribed in the Infrastructure Fund in 2015 can be identified in the table below, but no information is available to allow comment on the situation confronting the project enrolled in each of the programs now targeted for reduction, if the ad hoc committee approves it.

It stands out in the budget book no. 1 that the VI Constitutional Government reduces the number of government members from 55 to 38 and said that the savings that result from this optimized structure will be transferred to other areas, to strengthen public investment, new measures and strengthening of funds affected the existing activities.

It is noted that the charges of the State Institutions removed from the new governmental structure, although extinct continue to be additional costs for the state through the end of the year, in the order of \$273,000, \$66,000 of which is to support “Salaries and Wages” and \$207,000 for “Goods and Services”. This is to address costs relating to the activities developed by the line ministries from 1 January 2015 until the date of termination of 16 February 2015.

The VI Government widely advertises its intention to conduct a thorough reform of public administration by the end of its mandate, which will include the review of the career system and performance evaluation, among others, but and/or reported hopes that are also given special attention to the wage policy of the civil service, since the salaries of state employees have not been updated since 2011. The Analysis and Research Office of Parliament recently produced a small but instructive study, to be distributed to Members, which allows the measurement of the discrepancy between wage rates currently used by the state and the real cost of living. This work, which will in fact be different from the position that is being taken by the Public Finance Committee and often shaped on the form of recommendations in its opinion on the state budget, is attached to this report and opinion and, in the opinion of the rapporteur it should serve the starting point for the urgent and deep reflection that the issue lacks the part of governments.

Overall, the spending chapter, the rapporteur considers that the information provided by the Executive for the production of the opinion on the draft Amending GSB is scarce and that prior to the debate and vote on the draft law in plenary, members of the government should provide further information to the Ad Hoc Committee.

Some auxiliary tables on budgetary proposal had to be developed by the services to support Ad Hoc Committee and distributed to its members to support the work of the Ad Hoc Committee, synthesizing them as amended by the proposed Amending GSB and the amendments subsequently submitted and admitted.

## **VI. CONCLUSIONS AND RECOMMENDATIONS**

### **(i) Conclusions**

The proposed law n. 18/III (3) introducing the first amendment to Law n. 6/2014 of 30 December – General State Budget for 2015, follows and as a result of the reorganization of the Government caused by the beginning of the VI Constitutional Government, reflecting the “new optimized Government structure to create a smaller administration, more efficient and effective” (p. 4 Budget Book no. 1) and the corresponding financing needs.

The cast of the Government currently has three Coordinating Ministers, one of which for the area of Social Affairs, a second for the area of Economic Affairs and the third for the area of Administration Affairs. A reorganization of the governance structure is widely applauded, the synergies between ministries which they may have to withdraw in the future and the reduction of the entropy associated with the duplication of mandates.

Budget Book No. 1 “provides a complete list of all offices, positions and ministries that were closed and/or combined,” but what has happened despite its “extinction” or combination, carried out spending from 1 January 2015 until the date of its revocation, of \$ 273,000.

The State Budget 2015 Amending Bill does not change the overall volume of expenditure and revenue, keeping spending for the financial year, at \$1,570 million US dollars and the financing of the costs being met by oil revenues (84.6%) and non-oil (15.4%), as above.

The reasons given by the VI Government to maintain the same volume of spending, instead of the long-awaited and desired reduction in public expenditure, was that the savings from the rationalization and optimization of structures and organs of the V Government will be needed to finance the new measures identified in the table itself on page 19 of Budget Book 1 and that in total they comprise \$25 million. All in all, these new measures increase from \$25 million to \$75 million, if the Plenary adopts the single replacement text produced and approved by the Ad Hoc Committee since this provides additional money to ARAEOA and ZEEMS of \$50 million, adding to the increase initially contemplated in Annexes II and III of PPL no. 18/III (3).

In the draft law n. 18/III (3), the volume of oil revenues needed to finance the amended 2015 state budget was adjusted by the new Executive, to reflect, at least in part, the continued fall in oil prices which already reached historical lows in 2015. The Government clarifies that they only revise the value of ESI once a year and that therefore there will be adjustments only for the State Budget 2016.

Unfortunately, it is confirmed that it is the intention of the Government to make withdrawals from the Petroleum Fund of \$638.5 million (equivalent to the Estimated Sustainable Income calculated for 2015), and additional other withdrawals of up to \$689 million.

The public debt to subscribe by the State in 2015 will not suffer any changes, remaining at \$70 million, which is positive.

In draft law n. 18/III (3), the overall allocation of expenditure, including the costs incurred in the Consolidated Fund of Timor-Leste (CFTL), the Infrastructure Fund (IF) and Human Capital Development Fund (HCDF), remains at \$1.570 thousand million dollars. Also the allocations of special funds for Infrastructure and Human Capital Development remain unchanged, keeping intact the inscribed funds for the programs and projects. However, the amendments adopted by the Ad Hoc Committee set out in the Single Substitute Text foresee an increase in the CFTL budget by \$50 million and the reduction in the same value of the IF budget.

The change in total funding for the CFTL causes changes in all 5 categories of CFTL spending.

The Executive also did not provide to the National Parliament the budget books 2 - Annual Action Plans, 4 - Budget Lines, and 6 - Special Funds, containing information broken down by item and by project (in the case of IF) essential to the assessment of the submitted new budget proposal. And so there will be no remaining questions about supporting documents accompanying the Amending State Budget 2015 bill, the Preface to Book 1 is clear when it says that “The documentation for the 2015 State Rectification Budget consists of the draft Budget Law and this supporting budget book.”

## **(ii) Recommendations**

Essentially, the rapporteur accompanies and supports all of the 29 recommendations which were approved by Committee “C” at the end of 2014 and set out in their Report and Opinion on the Proposed State Budget Law for 2015, removing only those which in the meantime have already been accepted by the new Executive and are reflected in the VI Constitutional Government Program (Recommendations 1, 6, 10 - 14, 16, 20 - 21, 24 and 28).

It is recommended that the Government also gives good consideration to the recommendations produced by Committees “B”, “D”, “E” and “F” as part of the initial assessment of the state budget bill for 2015 and not yet considered.

Two additional recommendations of the ad hoc committee also important to include:

1. We recommend that the Government provides to the PN, prior to the date of the general plenary discussion of the proposed 2015 Amending State Budget or Single Substitute Text for the same, at least the Annual Action Plans of all ministries (corresponding to Budget Book 2), budget execution charts of expenditure and revenue through February 16 or more updated, and, if possible, Budget Books 4-A and 4-B – Expenditures and 6 - Special Funds.
2. We also remind the Government to review and revise the salary policy for the public administration in coming years.
3. We are concerned about the estimates of total withdrawals from the Petroleum Fund to be taken in 2016 and 2017 contained in the Government document “Presenting Budget Rectification 2015” (page 8; about \$1,700 million each year), the Ad Hoc Committee suggests to the Government the possibility that, in the scope of the preparatory work for GSB 2016, there be an exchange of ideas among the Government, the National Parliament (Committees C and D) and the Timor-Leste Central Bank as manager of the Petroleum Fund to try to reach an agreement in principle on a strategy to manage Public Finances to ensure their sustainability in the medium term. Of course this does not eliminate the ultimate responsibility of the RDTL Government to present to the PN a GSB which it considers more convenient.

## **VII. OPINION OF AD HOC COMMITTEE**

The Ad Hoc Committee on the Initial Appreciation and Issuance of Report and Opinion of the Draft Law No. 18 / III (3) - First Amendment to Law No. 6/2014, of December 30 (State Budget for 2015) is of the opinion that the bill in question meets the constitutional, legal and regulatory requirements and is therefore able to be submitted to the plenary for discussion and voting in general, reserving for each parliamentary party its position in the debate.

The rapporteur of this Opinion exempts herself in this Chamber, to express her opinion on the initiative in question, reserving to themselves and their parliamentary groups the respective political positions for the debate in plenary.

## **VII. ADOPTION OF THE REPORT AND OPINION**

The Opinion and Recommendations of the Initial Appreciation and Issuance of Report and Opinion of the proposed First Amendment to Law n. 6/2014 of 30 December (State Budget for 2015), were discussed on 30 March 2015, and were approved unanimously.

An integral part of this report and opinion are the attachments which accompany it and the written contributions received by the Ad Hoc Committee on the matter.

**The Chairman of the Ad Hoc Committee,  
(Vicente da Silva Guterres)**

**The Rapporteur  
(Maria Angelica Rangel da Cruz dos Reis)**